Department for Work & Pensions

Baroness Sherlock OBE
Minister of State for Work and Pensions
Caxton House
Tothill Street
London
SW1H 9NA

December 2025

Dear Viscount Younger,

The Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025

Thank you for your participation in an engaging debate on the Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025, in Grand Committee on 8th December. As you are aware, I committed in the debate to writing to you on the issue of surplus in CDC schemes.

You specifically asked, "In setting up CDCs, is it expected that CDCs would have a surplus or do the safeguards lie with the sponsors?"

Unlike DB schemes, the employer is not liable to guarantee the benefits paid by the scheme; but neither is the scheme proprietor. CDC schemes are designed to provide a target pension only, so if the scheme assets exceed or fall short of what is required to fund the pensions it expects to pay, then those pensions, including the future pensions of those who are not yet pensioners, must be adjusted accordingly.

Benefits in CDC schemes must be valued and must be adjusted annually in order to keep the value of assets held and the projected costs of benefits in balance. While unconnected multiple employer CDC schemes will be targeting a particular annual increase, which, at launch, will be at least in line with the expected average annual increase in the level of the CPI, it is inevitable that due to fluctuations in investment performance the funding level will vary over time. As a result, annual adjustments will vary to ensure the scheme's available assets and liabilities to members are in balance. Long term surplus buffers and deficits are not permitted to exist.

To avoid bias in favour of a particular group or cohort of members, CDC schemes are required to follow strict rules on benefit adjustments, most notably that any adjustment of benefits must be applied to all members without variation.

It is worth noting that although the scheme proprietor is not liable to guarantee the benefits paid by the scheme, the person or entity fulfilling this role must be liable for meeting costs if the scheme's income from administration charges is insufficient to cover operating expenses, setup costs, and authorisation costs.

Furthermore, the trustees must have first call on any assets held by the scheme proprietor for an unconnected multiple employer CDC scheme's financial reserves, meaning that these assets should be ring-fenced. This might be delivered through a legally binding agreement, or an escrow vehicle. In all cases, TPR will need to be satisfied of the ability of the trustees to access the financial reserves in the event of the failure of the scheme proprietor.

I hope this answers your question. I have copied this response to Lord Davies of Brixton who also contributed to the debate and a copy of this letter has been placed in the House Library.

Yours sincerely,

Baroness Sherlock OBE
Minister of State in the Department for Work and Pensions